

Message Text

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PAGE 01 TEL AV 05725 201132Z

46

ACTION NEA-12

INFO OCT-01 ADP-00 OPR-02 ABF-01 CIAE-00 COME-00 EB-11

INR-10 LAB-06 NSAE-00 RSC-01 SIL-01 TRSE-00 PER-05

DODE-00 PA-03 USIA-15 PRS-01 RSR-01 /070 W

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R 200827Z JUL 73

FM AMEMBASSY TEL AVIV

TO SECSTATE WASHDC 9144

UNCLAS TEL AVIV 5725

E O 11652: N/A

TAGS: ELAB, ECON, IS

SUBJECT: COST-OF-LIVING ALLOWANCE (COLA) APPROVED

1. HISTADRUT AND MANUFACTURERS' REPRESENTATIVES SIGNED AGREEMENT JULY 18 TO PAY COLA AS FROM JULY 1, AT RATE OF 10.3 PERCENT OF BASE PAY PLUS SENIORITY AND FAMILY ALLOWANCES, UP TO LEGAL MAXIMUM OF IL 700 (DOLS 167) PER MONTH. HENCE MAXIMUM MONTHLY COLA PAID WILL BE IL 72.10 (DOLS 17.17) TO PERSONS EARNING IL 700 OR MORE.

2. AGREEMENT WAS REACHED FOLLOWING PUBLICATION OF CONSUMER PRICE INDEX (CPI) FOR JUNE, SHOWING SMALL RISE OF 0.3 PERCENT THAT MONTH. RISE DURING FIRST SIX MONTHS OF 1973 HAS TOTALED 11.3 PERCENT. COMPARATIVELY SMALL INCREASE DURING JUNE OWED LITTLE TO PRICE FREEZE IMPOSED JUNE 25, WHICH CAME TOO LATE TO HAVE MUCH IMPACT ON JUNE PRICES. CREDIT BELONGS TO SUBSTANTIAL SEASONAL DECLINE IN FOOD AND VEGETABLE PRICES. HOWEVER, THIS IS LESS FAVORABLE THAN IT SOUNDS: IN SEVEN OF LAST TEN YEARS CPI HAS ACTUALLY DECLINED IN JUNE. RESULT THIS YEAR IS INDICATOR OF POWERFUL INFLATIONARY FORCES OPERATING IN ECONOMY. NONETHELESS, RATE OF INFLATION IN SECOND HALF OF 1973 SHOULD BE LESS THAN IN FIRST HALF.

3. COMMENT: MIDYEAR COLA IS FIRST PAID IN ISRAEL SINCE 1965, WHEN SEMINNAUAL ADJUSTMENTS WERE DONE AWAY WITH IN FAVOR OF UNCLASSIFIED

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PAGE 02 TEL AV 05725 201132Z

ANNUAL COLA. FINMIN SAPIR HAS NOW PUBLICLY CONCEDED

THAT SUPPLEMENTARY BUDGET WILL BE REQUIRED THIS FISCAL YEAR
(AFTER ELECTION), TO COVER UNBUDGETED WAGE INCREASES AND SOARING
COST OF PRICE STABILIZATION SUBSIDIES. (BANK OF ISRAEL GOVERNOR
HAS JUST PUBLISHED REPORT ON RISE IN MEANS OF PAYMENT, MANDATORY
WHENEVER INCREASE EXCEEDS 15 PERCENT WITHIN ONE YEAR.) COLA AND
SUPPLEMENTARY BUDGE, AS WELL AS COLA TO BE PAID EFFECTIVE
JANUARY 1, 1974, ARE CERTAIN TO ADD SUBSTANTIALLY TO
DEMAND PRESSURE.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 20 JUL 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973TELAV05725
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: TEL AVIV
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730719/aaaaanm.tel
Line Count: 70
Locator: TEXT ON-LINE
Office: ACTION NEA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: collinp0
Review Comment: n/a
Review Content Flags:
Review Date: 17 DEC 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <17-Dec-2001 by thomasv0>; APPROVED <11 FEB 2002 by collinp0>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: COST-OF-LIVING ALLOWANCE (COLA) APPROVED
TAGS: ELAB, ECON, IS
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005